business continuity, audit and regulatory programs of the future. One of the first things a teacher does is to create a course syllabus that includes textbook(s) and readings. Finding good textbooks for either course is a challenge. Though there are a number of books with the words “operational risk management” or “enterprise risk management” or “COSO” in the title, most of these books are dry as dust, often written by auditors. Since both courses also track real world operational risk issues, it is understood that additional reading and discussion from current events is required. In this quarter, looking at both the public and private sector in the advanced risk course, we’ve not been short of examples across multiple sectors: governance questions at JPMorgan Chase, the US Internal Revenue Service, the US Justice Department, and the US Department of Homeland Security; cyber challenges from Chinese and Iranian hackers; disasters in Bangladesh and Oklahoma; privacy risk from new technology such as Google Glass or various kinds of wearable clothing; emerging public health threats from both the Asian H7N9 virus and the Saudi norovirus; and terrorism at the Boston Marathon and in London. From this list, you can deduce that we examine risk primarily in six critical infrastructure sectors – banking and finance, energy, information technology, communications, public health and emergency services. Here are some of the questions that students have asked in the past year, and that you yourself may have been asking, as an operational risk manager:

Is this a young field? Yes, it’s early days yet, to my mind. I once heard a market risk expert describe operational risk as everything that is not market or credit risk. I prefer the Basel definition that looks through the lens of people, process, systems, and external events. Though we have increasingly sophisticated COSO and Basel frameworks and increasing layers of regulation, especially in the financial sector, we have yet to prove our usefulness to executives making business-based decisions. Even if I learn how to recognise and quantify the risk, who will listen to me in a corporate setting? And therein the rub: How to distinguish operational risk managers from compliance or from internal audit personnel? I am on my second textbook where equívocation and dithering takes place about where operational risk should report. My own view is that operational risk should build its program in a federated manner, from the ground up, so that “first responders” are actually in the line of business rather than in an oversight function. So part of the answer here depends upon being able to say how operational risk is a value add-on rather than an overhead burden. Since most business people do not believe that those in risk, compliance or audit functions actually understand the business from the inside out, taking the time to do so could mean all the difference. Sitting with the business as it is, maps its strategic planning and allows risk assessment to be grounded in the “what if?” premise, rather than seen as either a “yes man” or as a predictable “too dangerous” response. In fact, we want business to take risks, but with consideration of what could go wrong, and what type of agile response it would take to self-correct downstream. This is where good risk management, operational or market or credit, begins: with the business. I wrote several months ago (Perfect Pitch, The Risk Universe, March 2013) about how to frame up emerging risk projects in the form of executive briefings.

Aren’t some levels of loss acceptable if the end is still accomplished? It depends upon the risk appetite established at the highest level of the company. A good example would be the London Whale loss at JPMorgan Chase. The company is enormously profitable, and though the loss of more than $6 billion may look large to us, it was considered small from the perspective of the overall investment portfolio designed to offset losses elsewhere. The bank appears to be mired in two indirectly-related issues that are part of an operational risk pattern: a lack of succession planning and increased regulatory scrutiny as offset losses elsewhere. The bank appears to be mired in two indirectly-related issues that are part of an operational risk pattern: a lack of succession planning and increased regulatory scrutiny as